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## Latam Daily: BanRep Rate Hold, Solid Unemployment Rate Decline in Colombia

- **Colombia: BanRep kept the policy rate steady at 9.50% in a split vote, with 4 voting for stability and 3 voting for a 50bps cut; In February, the unemployment rate improved with job creation focused on informal activities**

### COLOMBIA: BANREP KEPT THE POLICY RATE STEADY AT 9.50% IN A SPLIT VOTE, WITH 4 VOTING FOR STABILITY AND 3 VOTING FOR A 50BPS CUT

The board of Colombia's central bank (BanRep) held the monetary policy rate at 9.50% in a split vote; four members voted for stability, and three members voted for a 50bps cut. The decision was aligned with Scotiabank Colpatria's expectations and recently set market consensus. The central bank maintained a cautious approach amid the tightening of financial conditions and local challenges on the fiscal front. All of the above was framed in a macroeconomic picture in which inflation has partially reversed its progress in the last couple of months and economic data that are showing a better performance of private consumption and investment. In fact, the central bank increased its GDP estimate from 2.6% to 2.8% in 2025.

During the press conference, Governor Villar recognized that the interest rate is restrictive. However, the board is aiming for inflation to resume a downtrend towards target. On the other hand, Minister Avila said he considers that inflation pressure not high, while reducing the rate could support the economy.

As anticipated, there was a division in BanRep's board. However, it is worth noting that the new members were more aggressive than expected, which puts them far from the consensus if they don't moderate their call of cuts for future meetings. The next meeting is on Wednesday, April 30<sup>th</sup>; by then, we could better understand the reaction to Trump's threats, while domestically we have to monitor the implementation of the fiscal strategy and the behaviour of financial assets.

In terms of the macro picture, we expect inflation to fall to 5.10% in March, while economic activity could continue delivering relatively positive numbers. Governor Villar said that the board is looking for a sustainable easing cycle, which suggests that a resumption of cuts should be supported by significant fundamentals. It is worth noting that at the April meeting, the board will update the staff's projections.

For now, our call is for a 25bps rate cut in April, but it will be strongly sensitive to incoming information. Although inflation will decrease again, we don't think inflation expectations will match this behavior, which could challenge the board in resuming the easing cycle. We expect a rate of 8.00% for the year-end, while in 2026, it could stabilize around 6.50-7.00%.

#### Press conference highlights:

- **Governor Villar affirmed the importance of having inflation under control.** Despite discarding a spike in inflation, he said that the interruption in the downward inflation trend is a concern. Villar highlighted that economic activity also shows signs of recovery. From where we stand, we see a possibility of BanRep resuming the easing cycle in April. However, it will depend on a moderation of inflation that we consider feasible and inflation expectations, which is not so clear right now. It is worth noting that Villar emphasized that fiscal stability is important, as uncertainty is a challenge from an inflation perspective.
- **Minister Avila was very vocal about the Government's position.** Avila said that the economy needs an impulse from monetary policy and that the rate should not be so

April 1, 2025

restrictive. He considers there is no strong pressure on inflation, while in terms of the minimum wage increase, he downplayed its impact on inflation and the labour market. Yesterday, DANE released labour market numbers showing strong job creation. Unfortunately, this job creation has a strong component of informality.

- **On fiscal matters**, Minister Avila insisted that the main way to improve the fiscal accounts is through increases in the fiscal income; he highlighted that tax collection is aligning with expectations and affirmed again that he will pursue a Financing Law, which in our opinion, has a very low chance of succeeding. Avila also said that the government is considering some spending cuts without affecting the government's social agenda. However, Avila fell short again in being more specific about spending cuts, thus keeping markets wary.
- **The next meeting will be on Wednesday, April 30<sup>th</sup>**. The board will have the March inflation result showing a potential reduction from 5.28% to 5.10% according to our estimates. However, it is difficult to anticipate if this could trigger a better behaviour on inflation expectations and, in turn, BanRep's decision. That said, Colombian market volatility will continue to be significant in the decision.

—Jackeline Piraján

## IN FEBRUARY, THE UNEMPLOYMENT RATE IMPROVED WITH JOB CREATION FOCUSED ON INFORMAL ACTIVITIES

On March 31<sup>st</sup>, DANE published labour market data for February 2025. The national unemployment rate stood at 10.3%, decreasing by 1.3ppts compared to 11.7% in February 2024, posting the lowest unemployment rate seen in a February month since 2015. The urban unemployment rate decreased 1.8ppts to 9.8% compared to 11.6% in February 2024. Seasonally adjusted, the national unemployment rate decreased to 9.3% from the previous month and remains below a year-ago level of 10.6%, while the urban unemployment remained unchanged at 9.0%.

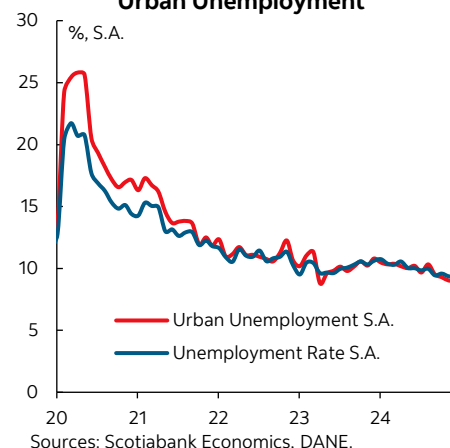
Employment conditions are starting to reflect the ongoing recovery in activity. In February, 977k jobs were created, with the most significant contribution coming from construction, public administration, housing, and food services and commerce which contributed 76% of the total job creation. The job recovery in construction reflects a recovery of some job losses one year ago, but it also suggests a better economic growth perspective for 2025 with the non-residential sector contributing the most. In contrast, financial and insurance activities, communication, real estate, and leisure offset the increase in job creation with a destruction of 239k jobs.

The three-month moving average of job creation accelerated. In the December 2024 to February 2025 quarter, job creation averaged 870k, compared to 396k in the December 2023 to January 2024 quarter, reflecting that job creation has accelerated in the second half of 2024 and at the beginning of 2025. However, we continue to believe that economic activity still needs a stronger boost to reach pre-pandemic levels, as high interest rates and the lack of investment continue to hinder greater dynamism, especially in activities such as industry and construction which represent the 90% of total investment in Colombia.

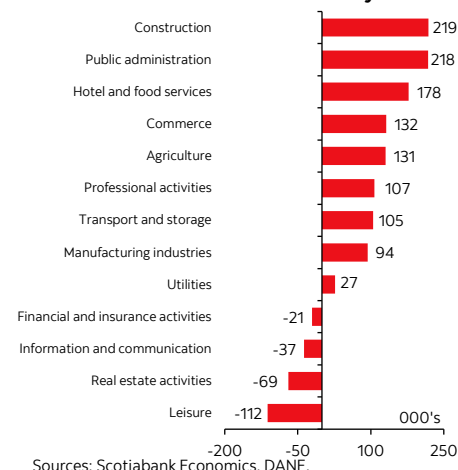
On a seasonally adjusted basis, the unemployment rate decreased compared to the previous month. The national unemployment rate decreased to 9.3% in February, while it remained unchanged in urban areas at 9.0%. At this point, the number of people outside the labour market has decreased by 146k people at the beginning of the year and was reflected on an increase in labour participation rate from 63.8% in February 2024 to 64.7% in February 2025. For now, in our take the labour participation will continue to recovery after a drop of 0.2ppts in 2024 that could be related to the historical inflow of remittances in 2024 (+17%), discouraging labour participation.

All in all, the results suggest that employment creation is gaining momentum, while the sectoral composition is changing. The sectors that led economic activity during most of 2024 are now losing steam, while some sectors that are starting to show stabilization signals in their production dynamics are now showing better job creation. For now, we expect an average unemployment rate that will increase from 10.2% in 2024 to 10.4% in 2025, due to a greater increase in participation levels compared to the acceleration in job creation. However, we don't rule out that unemployment may be below what we estimate, depending on the degree of absorption of new entrants.

**Chart 1**  
Colombia: Nationwide and Urban Unemployment



**Chart 2**  
Colombia: Annual Job Creation by Sector



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The unemployment rate data reduces the pressure on the central bank to continue cutting the interest rate. However, we call attention to the fact that the low unemployment rate is hiding the effect of a still-low participation rate. For now, BanRep kept the monetary policy rate at 9.50% we had expected due to international uncertainty, domestic noise around fiscal accounts, the rebound in inflation, and economic activity pointing to a gradual recovery. It will be critical to monitor incoming macro data, especially on the inflation and inflation expectations fronts.

**Employment data highlights:**

- **In February +977k jobs were created, with 9 of the 13 economic sectors recording positive changes.** Job creation was concentrated in construction (+219k), public administration (+218k), hotel and food services (+178k) and commerce (+132k). In general, the labour performance was better than expected where activities such as professionals (+107k) registered an employment expansion in contrast to the results of January 2025 after the expiration of temporary employment contracts that had been executed in 2023. In contrast, the decline in leisure (-112k), real estate (-69k), communications (-37k) and financial and insurance activities (-21k) offset the general result.
- **Informality increased in February.** The informality rate increased slightly compared to the same period of the previous year, from 57.0% to 57.6%, suggestive of a worse economic backdrop. The quality of employment in urban areas has deteriorated, with the informality rate rising from 42.1% in February 2024 to 43.0% in February 2025. Despite the employment gain, new jobs have been focused on informal sectors such as self-employed which increase by +674k in this period.
- **Colombia's labour market maintains a high gender gap.** In February, the national unemployment rate for women was 13.4% and for men was 8.0%. Thus, men absorbed +426k new jobs, of which +533k were in self-employed workers, +118k in the private sector and +3k in employers, offset by the destruction of 231 k jobs in day-labourer, public sector and domestic activities. Female employment rose +550k with increases in all the occupational positions, with +194k in the private sector, +141k in self-employed workers and +69k in employers.
- For 2025, we expect a restructuring of the labour market with improvements in the labour participation rate. **The balance will depend on the capacity of the labour market to absorb labour force entrants, alongside a loss of momentum in public employment gains.**

—Valentina Guio

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